

GAO

Report to the Committee on Government  
Operations, House of Representatives

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May 1994

# COST ACCOUNTING STANDARDS BOARD

## Little Progress Made in Resolving Important Issues



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**Accounting and Information  
Management Division**

B-255794

May 25, 1994

The Honorable John Conyers, Jr.  
Chairman  
The Honorable William F. Clinger, Jr.  
Ranking Minority Member  
Committee on Government Operations  
House of Representatives

This report responds to your joint request and that of the former Ranking Minority Member (Representative Horton) that we examine certain operations of the Cost Accounting Standards Board (CASB). Specifically, we examined the Board's progress in resolving cost accounting issues and the adequacy of its staffing levels.

First established in 1970, CASB was to promulgate standards to ensure uniformity and consistency in the measurement, assignment, and allocation of costs for Department of Defense (DOD) and other relevant federal agencies' negotiated contracts. The CASB standards were intended to help assure the government of a fair price in its procurements and at the same time provide uniform rules for contractors to follow in their cost accounting. Between 1970 and 1980, CASB promulgated 19 standards. CASB went out of existence on September 30, 1980, when the Congress felt it had accomplished its mission and thus discontinued further funding.

In 1988, the Congress authorized the reestablishment of CASB, thereby providing a mechanism for revising outdated standards and consistently applying existing ones by all federal agencies. CASB was placed within the Office of Management and Budget's (OMB) Office of Federal Procurement Policy. CASB standards are now applicable to all negotiated government contracts with certain exceptions.

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**Results in Brief**

Since the newly established CASB began operations in July 1990, it has made minimal progress in resolving pressing cost accounting issues. To date, the Board has completed 3 of its original 12 projects, 2 of which dealt primarily with internal organizational and operational issues. The inherent nature of the Board's work as a standard-setter, where general acceptance is obtained through deliberative due process procedures, makes it difficult to measure timeliness. However, the Board's progress has been hampered by limited staffing and inadequate planning and project management.

The number of Board staff working on substantive cost accounting issues, two full-time employees and one part-time employee, aside from the Executive Secretary, limits its ability to expeditiously complete ongoing projects and to start work on four projects CASB identified as needing prompt resolution. Further, CASB had no definitive plans containing estimated time frames and milestone dates for all phases of ongoing projects and no estimated start dates for projects not yet begun. The majority of respondents to our survey of government and industry contracting representatives expressed the opinion that CASB has been moving too slowly in issuing authoritative guidance and probably has too few staff.

## Background

When the original CASB discontinued operations in 1980, the Defense Acquisition Regulation Council, an organization established by DOD to oversee certain acquisition requirements, took the position that it had the authority to amend and issue new cost accounting standards and thus took over the administration of the federal acquisition regulations covering cost accounting standards. However, the armed services branches also began to offer their own interpretations of cost accounting standards. Subsequently, major government contractors became increasingly concerned about the difficulty and costs of adhering to different interpretations of the standards.

The Congress then reestablished CASB, which began operations in July 1990. This newly established Cost Accounting Standards Board consists of five part-time members: the Administrator of the Office of Federal Procurement Policy (OFPP), who serves as the chairman; one representative each from the General Services Administration (GSA) and DOD; and two individuals from the private sector. The chairman chooses the two private-sector members, and the GSA and DOD representatives are chosen by the GSA Administrator and Secretary of Defense, respectively. The current administration appointed a new OFPP Administrator who was confirmed on November 19, 1993, and assumed his responsibility as Board Chairman as of that date.

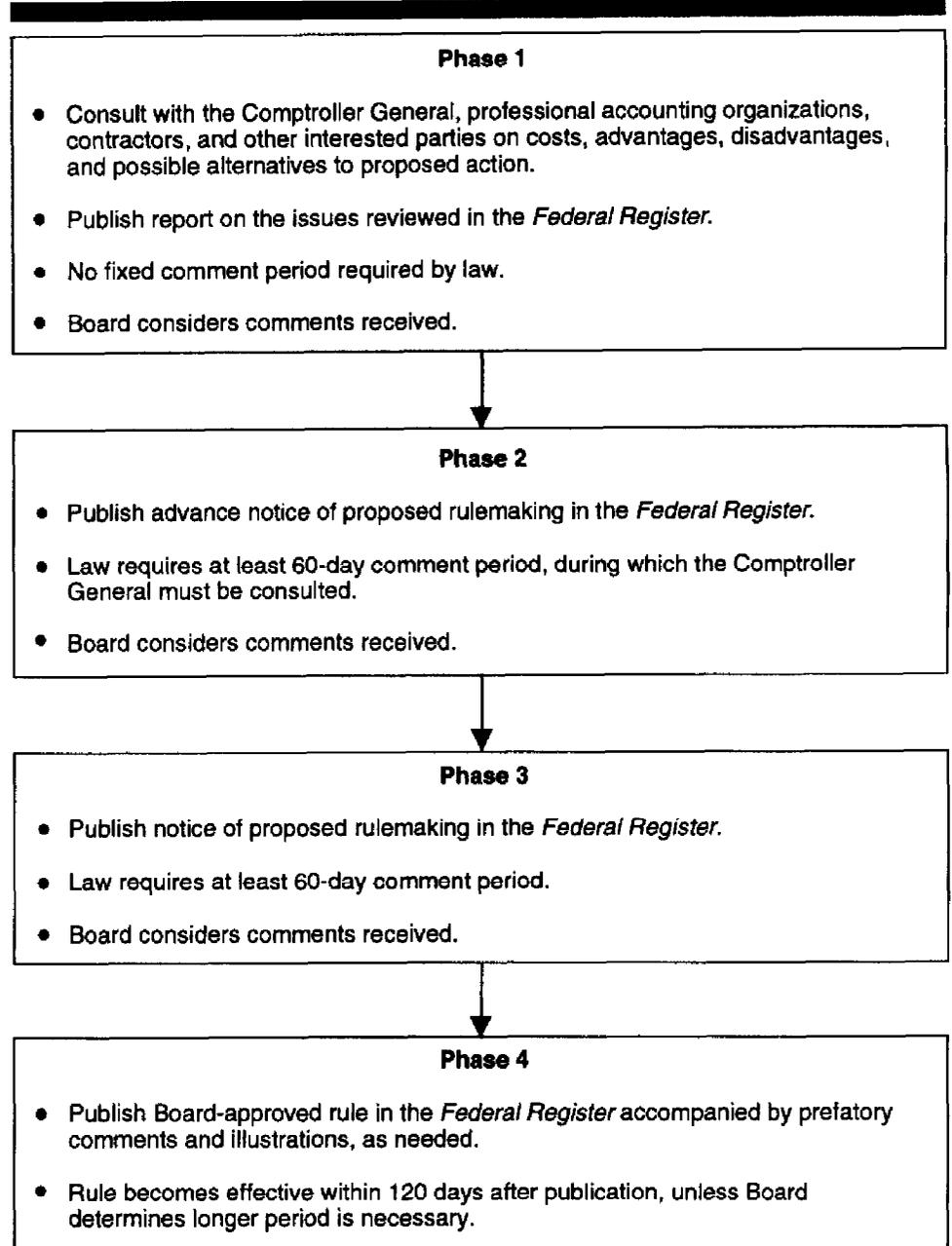
The Office of Federal Procurement Policy Act Amendments of 1988, Public Law 100-679 (41 U.S.C. 422), give the Board exclusive authority to make, promulgate, amend, and rescind cost accounting standards and interpretations. The law requires that prior to promulgation of a standard, CASB take into account the costs and benefits of implementation and possible alternatives, after consulting with the Comptroller General of the

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**United States, professional accounting organizations, contractors, and other interested parties.**

**The four basic phases of the Board's process to promulgate or amend standards are shown in figure 1.**

**Figure 1: Promulgation of Cost Accounting Standards**



## Scope and Methodology

To assess CASB's progress in addressing important cost accounting issues, we reviewed the Board's success in addressing issues it had identified as pressing during its first year of operation. In assessing whether the Board

had sufficient staffing, we reviewed the staffing history of the Board and compared that to the Board's workload. We interviewed Board members and staff, agency officials, and others involved in or interested in cost accounting related to government contracts.

We also developed a questionnaire, which we used to obtain views about CASB from a wide cross-section of contracting industry representatives, federal government officials, and others interested in the Board's activities. We received completed questionnaires from 262 respondents of the 379 in our sample. Our questions asked for respondents' views on several CASB matters, such as its structure, rulemaking procedures, and staffing. Appendix I describes the methodology used in tabulating the questionnaire results.

We performed our work in Washington, D.C., from June 1993 through March 1994. Our review was performed in accordance with generally accepted government auditing standards. We discussed our findings with the current Chairman and Executive Secretary of the Board. Their comments have been incorporated as appropriate.

## Little Progress Made in Addressing Pressing Cost Accounting Issues

In the 3-1/2 years of its operation, CASB has made limited progress in resolving important cost accounting issues. Within the first year of its operation, the Board identified 12 cost accounting issues that it felt needed prompt resolution. As of February 1, 1994, the Board had completed work on 3 of these original 12 high-priority projects. Work continues on five of the projects, while work on the remaining four has not yet begun.

Respondents to our questionnaire also believe the Board is moving very slowly in issuing standards. Of the 41 contractors, each with \$100 million or more in contracts,<sup>1</sup> and 79 government respondents who expressed their views on the timeliness of issuing guidance, 80 percent of the contractors and 53 percent of the government officials said that CASB is moving too slowly. In addition, written comments from 32 of the contractor respondents, as well as a recent article in a professional journal,<sup>2</sup> highlighted industry's frustration with the general slowness of the Board in addressing and resolving important cost accounting issues.

<sup>1</sup>The questionnaire was also sent to a random sample of contractors with contracts between \$500,001 and \$100 million. However, the response rate was too low to make projections or overall observations related to their responses.

<sup>2</sup>Darrel A. Sourwine, "CASB: Is It Doing the Job?," *Management Accounting*, January 1994.

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During the first two meetings of the Board in the summer of 1990, two projects were identified as critical:

- recodification of existing cost accounting requirements (with updating to reflect the new requirements of the Office of Federal Procurement Policy Act Amendments of 1988) and
- statement of Board objectives, policies, and concepts.

In November 1990, the Board solicited comments from interested parties to help it establish an agenda of issues to address. From the responses received by the end of January 1991, six issues were identified as important enough to warrant prompt resolution:

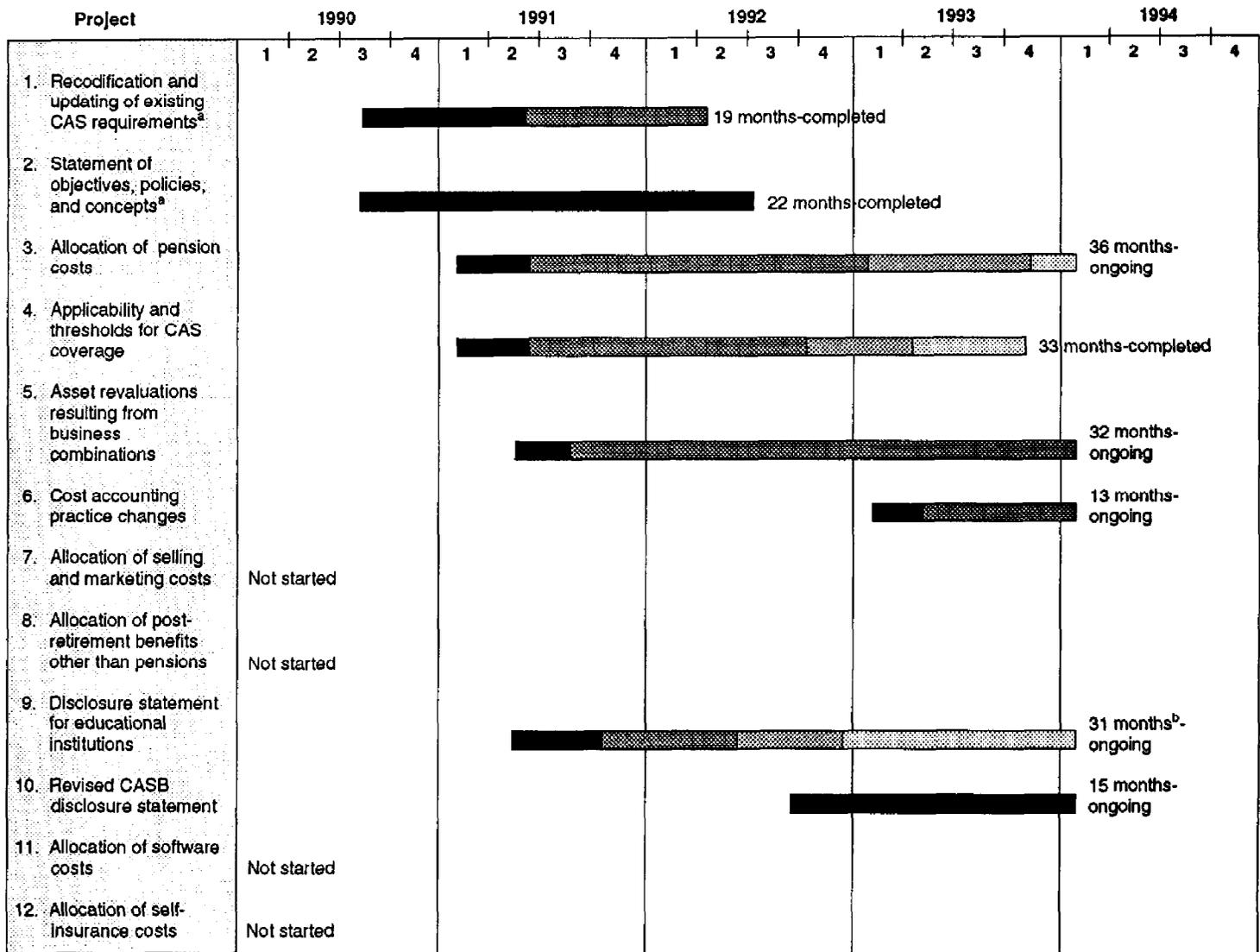
- allocation of pension costs to government contracts,
- revision of applicability of standards and dollar thresholds for cost accounting standards (CAS) coverage,
- treatment of asset revaluations resulting from business combinations of two or more CAS-covered contractors,
- treatment of cost accounting practice changes,
- methods for the allocation of selling and marketing costs to government contracts, and
- allocation of post-retirement benefits other than pensions to government contracts.

In the spring of 1991, the Board selected an additional four issues needing prompt resolution:

- establishment of cost accounting and disclosure statement requirements for educational institutions,
- revision of disclosure statements for government contractors,
- methods for allocation of software development costs, and
- methods for allocation of self-insurance costs.

Figure 2 illustrates the status of the 12 projects.

Figure 2: Status of CASB Projects as of February 1, 1994



- Phase 1 - Publication of report on issues reviewed after staff research and consultation with accounting community.
- Phase 2 - Publication of advance notice of proposed rulemaking after Board consideration of comments received.
- Phase 3 - Publication of notice of proposed rulemaking after Board consideration of comments received.
- Phase 4 - Publication of Board-approved rule after Board consideration of comments received.

<sup>a</sup>The first two projects were largely administrative in nature and did not go through all four phases of the rulemaking process.

<sup>b</sup>Final rule approved by CASB on July 7, 1993; disapproved by OIRA on February 1, 1994.

The five projects in progress as of February 1, 1994, have been ongoing for an average of about 25 months. Three of these five projects cover controversial issues. According to Board staff, it has been difficult for the Board to reach a position on two of these projects—contract pension costing and asset revaluations resulting from business combinations. A third project, the CASB Standards and Disclosure Statement for Educational Institutions, was approved by the Board for final issuance July 7, 1993. Subsequently, OMB's Office of Information and Regulatory Affairs (OIRA) ruled that under the Paperwork Reduction Act of 1980, as amended, the disclosure statement was too burdensome on educational institutions and did not have "practical utility," and returned it to the Board without approval. Under the Paperwork Reduction Act of 1980 (Public Law 96-511, 94 Stat 2812), as amended, OIRA determines whether the information required by a federal agency is too burdensome on those required to submit it, compared with the purpose the information is intended to serve.

## Limited Staffing and Conflicting Demands Hinder Board's Work

When CASB was established within OMB's Office of Federal Procurement Policy in 1988, OFPP's authorized staff level for all of its activities was set at 32. The Board's original staffing plan called for seven professional staff members dedicated to working on cost accounting issues. However, during most of its existence, OFPP has provided the Board with only two full-time staff members and one part-time staff member, in addition to the Executive Secretary, dedicated to working on substantive cost accounting issues. (The part-time staff member worked until the end of October 1993, after which he left the agency.) According to Board staff, its small size has slowed progress in completing ongoing projects and precluded it from undertaking the four projects on the agenda that have not yet been started.

Questionnaire respondents generally indicated current Board staffing levels were not optimal. The number of staff that the 125 respondents indicated should be dedicated to cost accounting issues ranged from a low of 2 to a high of 30, with 10 being the most frequently selected number. The average number of staff indicated by the 42 contractors responding to this question was 10, and the average indicated by the 83 government officials responding was 11.

## Staffing Options Limited by the Board and OMB

To assist the Board in carrying out its responsibilities, the Office of Federal Procurement Policy Act Amendments of 1988 permit the Chairman to appoint detailees from other federal agencies and engage the temporary services of outside experts to serve on advisory committees and task forces.

In September 1990, during the second Board meeting, the subject of task forces was discussed. The Board thought that to be representative of all interested parties, task forces should consist of both government employees and employees of industry. However, the former Chairman did not want to grant conflict-of-interest waivers to prospective nongovernment members of a task force, believing that ethical concerns would be raised. He stated that employees of government contractors or others from the private sector, as members of a CASB committee, could be viewed as having a vested interest in the outcome of the committee's work.

The use of detailees from other federal agencies also was limited by a directive from OMB which restricted the use of detailees. OMB wanted to keep the number of detailees assigned to it to a minimum, in order to avoid the appearance that OMB was circumventing its authorized staffing levels.

The Chairman's concern about ethical issues is valid; however, waivers of a conflict-of-interest can be granted under appropriate circumstances. For example, based on an analysis of the full disclosure of the financial interests of a prospective nongovernment member of a task force and an opinion from the Office of Government Ethics, the Chairman could grant waivers of a conflict-of-interest if in his opinion no financial gain could occur because of the position as a nongovernment member of a CASB task force. Such waivers were made for the two nongovernment members of the Board. Although OMB's use of detailees from other agencies is limited, OFPP has obtained detailees to work on selected procurement policy issues.

Restricting the use of detailees, committees, or task forces, when staffing needs exist, is likely to further limit progress in resolving pressing cost accounting issues. We believe with clearly stated safeguards concerning conflicts-of-interest and limits placed on the duration of assignment, the use of detailees, advisory committees, or task forces as specified in law is feasible and would provide needed assistance to the Board. While augmenting CASB staff by drawing from the private sector poses some risks

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of bias, adequate safeguards exist—primarily the Board’s due process and waiver procedures—to ensure that CASB standards are balanced.

Respondents to the questionnaire supported the use of advisory committees. Of the 53 contractors who expressed an opinion on the use of advisory committees, 87 percent indicated that advisory committees and task forces would be helpful to at least a moderate extent; 82 percent of the 98 government respondents expressing an opinion also indicated that advisory committees would provide at least moderate help.

Although additional staff will not be assigned to CASB to fill the vacancy created in October when the part-time staff left, the current Chairman of the Board stated that the staff will be supplemented by a detailee assigned to work on the pension project. He also stated that the use of task forces and committees will be explored.

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### Board Staff Have Not Worked Full-Time On CASB Issues

In June 1992, the OMB Director approved a project creating interagency task groups, called “SWAT” teams, to examine and assess contract administration and auditing practices of 12 civilian agencies. The teams’ ultimate goal was to help ensure that the government was not reimbursing its contractors for unallowable costs. The teams were charged with determining (1) the nature of existing weaknesses in administration and auditing practices and (2) ways to improve the administration of cost-reimbursable contracts. Because of the priority of the SWAT teams and the expertise of the CASB staff in cost accounting on government contracts, the Board Chairman directed CASB staff to work on the interagency SWAT teams.

According to CASB staff estimates, from June through December 1992, about one-third of all their time was devoted to these SWAT team efforts. They also said that one staff member contributed to the report of the SWAT team by drafting substantial portions of the chapter on contract cost principles. Further, they said, all CASB staff continued to spend time on SWAT team follow-up work during calendar year 1993.

The primary mission of CASB, however, is to issue standards on the measurement, assignment, and allocation of costs related to government contracts. Although the Board’s activities could result in improving administration of government contracts and is intended to ultimately result in the appropriate reimbursement of contractor costs, it is not

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charged with issuing requirements on contract administration or cost principles.<sup>3</sup>

The current Chairman stated that he does not intend to assign staff to matters other than those directly related to CASB's primary mission.

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### The Board Does Not Have Comprehensive Plans to Meet Its Objectives

Due to the inherent time-consuming nature of the due process procedures CASB is to follow in gaining general acceptance of its standards, coupled with staffing limitations, effective planning and project management are critical to the timely resolution of important cost accounting issues. Plans provide a benchmark for management to monitor projects and to assess progress, timeliness, and resource needs and enable others interested in the Board's work to anticipate changes in financial reporting requirements.

CASB planning has consisted of lists of important projects to undertake, progress made on the projects undertaken, and the expected time needed to complete the phase currently being worked on in each of the ongoing projects. The Board updates these plans continuously, but the plans have not included a more comprehensive approach to project management, with projects listed in priority order and including milestone dates and projected staff time needed to reach each milestone date. The Board's plans also did not include either projected completion times for all unfinished phases of active projects or the anticipated starting times for projects not yet begun.

According to CASB staff, projected times for completing all project phases were not included because members of the Board held different views on the time needed to fully research each position, reach conclusions, and draft supporting papers. Consequently, deadlines for resolving issues and reaching milestones were considered to be arbitrary. The staff also said that members could not agree on the order of starting the four projects not yet begun.

The Chairman of the Board agreed that more comprehensive plans and better project management were important and stated that these matters will be explored with the Board.

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<sup>3</sup>Cost principles refer to allowable (reimbursable) costs on government contracts, as opposed to standards on cost allocation.

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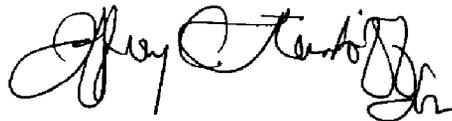
## Conclusions

Establishing standards through a process aimed at gaining general acceptance is inherently time consuming. However, the Board's limited progress in resolving pressing cost accounting issues is also a product of both limited staffing and insufficient project planning and management. Without change in these areas, progress in filling existing gaps in cost accounting standards and guidance will continue to be slow.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this letter. At that time, we will send copies of this report to the Chairman and Ranking Minority Members of the Senate Governmental Affairs Committee, the Chairmen and Ranking Minority Members of the House and Senate Budget Committees, and other interested congressional committees. We will also send copies to the Director, Office of Management and Budget; the Director, Congressional Budget Office; and the Chairman of the Cost Accounting Standards Board. Copies will be made available to others upon request.

This report was prepared under the direction of John W. Hill Jr., Director, Audit Support and Analysis Group, who may be reached at (202) 512-8549 if you or your staffs have any questions. Other major contributors to this report are listed in appendix II.



Gene L. Dodaro  
Assistant Comptroller General



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## Abbreviations

CAS	cost accounting standards
CASB	Cost Accounting Standards Board
DOD	Department of Defense
GSA	General Services Administration
OFPP	Office of Federal Procurement Policy
OIRA	Office of Information and Regulatory Affairs
OMB	Office of Management and Budget



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# Methodology Employed in the Use of the Questionnaire

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We used a questionnaire to obtain views about CASB from contracting industry representatives, federal government contracting officials, and others interested in the Board's activities. The questionnaire included inquiries about the structure of the Board, the desired staffing levels for the Board, its timeliness, process of developing and issuing standards, and operating methods.

Prior to distribution of the questionnaire, we conducted extensive pretests with 24 people: 8 from the contracting industry, 10 from government, and 6 from other accounting standard-setting bodies. We incorporated many of the comments we received into the final version of the questionnaire.

We sent the questionnaire to people from three categories: contractors, government officials, and others such as academicians and public accounting firms interested in the Board's work. We originally sent the questionnaire to 520 potential respondents. Ultimately, our sample was reduced to a total of 379 respondents. The primary reason for reducing the sample size was that the potential respondents either indicated on the questionnaire or told us that they did not have sufficient knowledge to complete it. Of the 379, we received 262 completed responses.

We were not able to project the responses to our questionnaire to the universe of contractors, government officials, or others because (1) the overall response rate from contractors was too low and (2) the samples drawn from government officials and others were judgmentally selected.

We sent the questionnaire to two categories of contractors: those with contracts between \$500,001 to \$100 million and those with contracts of \$100 million or more. The response rate from contractors with contracts between \$500,001 to \$100 million was too low to make any observations about this group; however, the response rate from contractors with contracts over \$100 million was sufficient to make observations. Consequently, the contractors' responses referred to in our report relate only to this category of contractors. The response rate from government officials was sufficient to make observations about the views of these officials. The response rate from our third group was too low to make any observations.

Responses are summarized in table I.1:

**Appendix I  
Methodology Employed in the Use of the  
Questionnaire**

**Table I.1: Responses to the  
Questionnaire**

<b>Category</b>	<b>Reduced number of potential respondents</b>	<b>Completed questionnaires</b>	<b>Response rate (percent)</b>
Contractors:			
Contractors with contracts of \$100 million or more	77	57	74
Contractors with contracts between \$500,001 and \$100 million	64	32	50
Government	143	122	85
Others	95	51	54
<b>Totals</b>	<b>379</b>	<b>262</b>	

## Contractors

We selected the contractors from the data available as of June 1, 1993, contained in the GSA's Federal Procurement Data System. This System's data listed over 197,000 contracts with the government totaling about \$180 billion. Of the 197,000 contracts, we identified 26,770 that were for amounts over \$500,000, the minimum threshold requiring compliance with CASB standards and rules. The 26,770 contracts totaled about \$168 billion, about 93 percent of the \$180 billion total of all contracts. We selected all 232 contracts of \$100 million or more. The 232 contracts were entered into by 91 different contractors, but the potential number of respondents was reduced to 77 for the same reason as previously mentioned—respondents did not have sufficient knowledge to complete the questionnaire. The response rate from this category was 74 percent.

We also randomly selected 150 contracts from the 26,538 contracts between \$500,001 and \$100 million. The 150 randomly selected contracts were entered into by 109 different contractors; but the potential number of respondents was reduced to 64, for the same reason previously mentioned. The response rate of this category was 50 percent.

## Government Officials

We originally selected 212 government officials known to be involved in procurement or contracts, but reduced that number to 143; again, for the same reason as previously mentioned. The 143 officials were judgmentally selected from 37 departments or agencies. Eighty-nine of the officials were from four agencies: Department of Defense (60), the Department of Agriculture (10), the Department of Health and Human Services (10), and

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**Appendix I  
Methodology Employed in the Use of the  
Questionnaire**

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the Department of Energy (9). The response rate from this group was 85 percent.

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**Others Interested in  
CASB's Work**

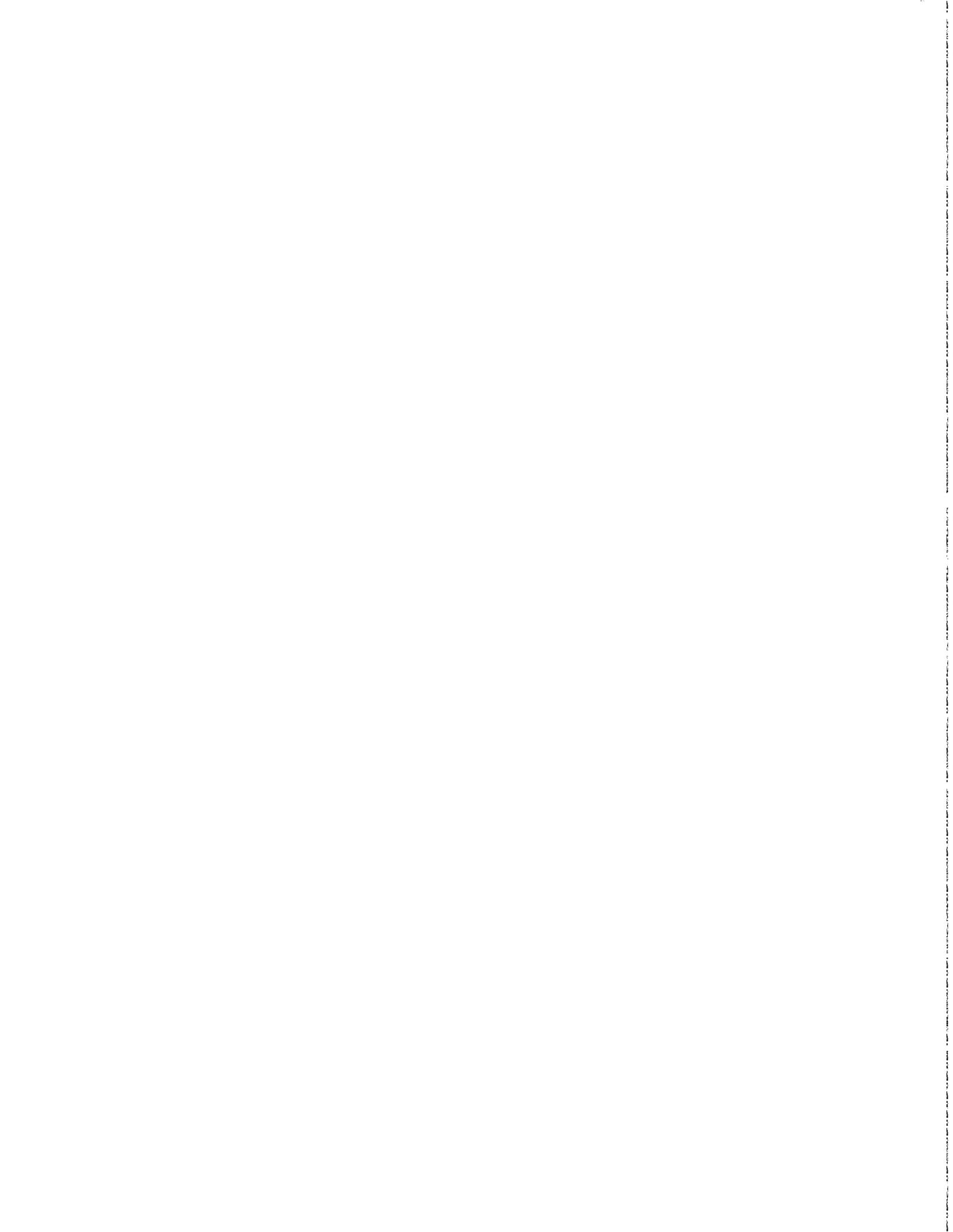
We originally selected 108 other interested parties who we knew would not respond as an official of a government contracting agency or contractor, but reduced that number to 95, again for the same reason previously indicated. These parties included those of professional organizations and others. Examples of these parties included the Aerospace Industries of America, the Public Contract Law Section of the American Bar Association, academicians, public accounting firms, and staff of the former CASB. The response rate from this group was 54 percent.

# Major Contributors to This Report

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